

# Unused Sick Leave at Retirement for Utah State Employees

As of May 14, 2013

## 2013 Unused Sick Leave Changes

Beginning January 4, 2014, new sick leave hours earned will no longer provide a postretirement benefit for state employees (i.e., Program II accumulation of unused sick leave hours are capped after that date). New unused sick leave hours may be accrued but are forfeited upon leaving state employment, including leaving due to retirement.<sup>1</sup>

## Generally

A state employee who has an unused sick leave balance earned before January 4, 2014, may exchange the hours for a postretirement benefit only if the employee is eligible to receive a retirement allowance. If an employee leaves employment before retirement, the unused sick leave is forfeited, except for unused converted sick leave.<sup>2</sup>

A state employee's unused sick leave balance is forfeited upon leaving state employment, unless the hours were earned before January 4, 2014, and unless the employee:

- retires;
- is rehired within one year; or
- dies in the line of duty.

*Utah Administrative Code R477-7-4 and Utah Code Section 67-19-14.3*

## Earned Time Frames

Unused sick leave hours earned before January 1, 2006, are under Program I provisions. Unused sick leave hours earned between January 1, 2006, and January 3, 2014, are under Program II provisions.

## Basic Benefits

Under both Program I and Program II, the retiree receives a contribution for the first 25% of the unused sick leave hours into the employee's 401(k). The contribution<sup>3</sup> is equal to the number of hours times the retiree's hourly rate of pay at the time of retirement.

The remaining 75% of unused sick leave hours may be redeemed as follows:

- Program I hours, for medical and life<sup>4</sup> insurance, at the rate of eight hours of sick leave for one month of continuing medical and life insurance coverage; and
- Program II hours, for deposit into a health reimbursement arrangement (HRA), based on the retiree's hourly rate of pay<sup>5</sup> at the time of retirement.

## Program I Medical Coverage

The exchange of sick leave for continuing medical and life insurance coverage:

- may be exchanged for up to the same medical coverage level for member, two-person, or family coverage carried by the retiree at the time of retirement (*Utah Code Subsection 67-19-14.2(4)(b)*);
- begins upon retirement;
- may not be deferred for future use; and
- continues to be in effect until exhausted or until the date the retiree reaches the age of eligibility for Medicare, whichever is earlier.

### Basic Description

Unused Sick Leave Retirement Option <b>Program I</b> (sick leave earned before January 1, 2006).	Unused Sick Leave Retirement <b>Program II</b> (sick leave earned between January 1, 2006, and January 3, 2014).
First 25% of value is deposited into retiree's 401(k).	First 25% of value is deposited into retiree's 401(k).
Remaining sick leave may be used to purchase medical and life insurance benefits at the rate of <u>8 hours for one month coverage</u> until the earlier of the retiree's eligibility for Medicare or the sick leave runs out.	Remaining sick leave is deposited into an <u>HRA</u> for the retiree.
Upon reaching eligibility for Medicare, the retiree may purchase Medicare supplemental insurance at the rate of <u>8 hours for one month coverage per person</u> .	NA

(*Utah Code Subsection 67-19-14.2(4)(a) and (5)(a)*).

If the retiree has unused sick leave hours remaining after reaching the age of eligibility for Medicare, the retiree may exchange the unused sick leave for:

- Medicare supplemental insurance for the retiree at the rate of eight hours for one month of coverage; and
- the retiree's spouse at the rate of eight additional hours for one month of coverage, under either:
  - > continuing medical coverage; or
  - > when the spouse becomes eligible for Medicare, for Medicare supplemental insurance (*Utah Code Subsection 67-19-14.2(4)(c) and (d)*).

#### Other Frequently Asked Questions

- **What is "converted sick leave"?** -- An employee may change up to 40 hours of unused sick leave to converted sick leave, which may be used in the same way as annual leave or sick leave by complying with the provisions of Utah Code Section 67-19-14.1 (see *endnote 2*). The ability to accumulate converted sick leave ends January 1, 2014.
- **What if a retiree is reemployed with a state agency?** -- An employer participating in Program I benefits may not provide the medical or life insurance benefits to a person who is reemployed after retirement (*Utah Code Subsection 67-19-14.2(5)(b)*).
- **What if a state employee dies in the line of duty?** -- If a state employee dies in the line of duty, the beneficiary receives:
  - > the proceeds of a \$50,000 group life insurance policy;
  - > group health coverage for the surviving spouse until remarriage or until eligible for Medicare, whichever occurs first, and for unmarried children up to age 26; and
  - > the benefits of Program I and Program II for the deceased employee's unused sick leave for additional coverage (*Utah Code Section 49-20-406 and Section 67-19-14.3*).
- **Can Program I hours be transferred to Program II?** -- An employee with unused sick leave hours in Program I may make a one-time and irrevocable transfer of hours to Program II (*Utah Code Subsection 67-19-14.4(1)(c)*). A retiree who is already covered by a spouse's medical insurance may wish to choose this option.

Under Program I, once the retiree reaches eligibility for Medicare:

- any family and two-person coverage ceases; and
- the retiree and spouse are funded under separate policies at the rate of eight hours of unused sick leave for one month coverage for each person.

*Utah Code Sections 67-19-14.2(4)(c) and (d)*

Source: *Utah Code Sections 67-19-14, 67-19-14.1, 67-19-14.2, 67-19-14.3, and 67-19-14.4; and Utah Administrative Code R477-7-4, R477-7-5, and R477-7-6.*

<sup>1</sup>. 2013 General Session H.B. 194, "State Employee Benefits Amendments," caps the Unused Sick Leave Retirement Program II to an employee's unused accumulated sick leave and converted sick leave accrued only between January 1, 2006, and January 3, 2014. The bill also provides a different, new benefit beginning January 4, 2014, so that the state makes a biweekly matching contribution of up to \$26 per pay period to a qualifying employee's defined contribution plan qualified under Section 401(k) of the Internal Revenue Code. The matching contribution amount is determined annually by the Legislature.

<sup>2</sup>. Converted sick leave may be used by a state employee in exchange for cash in the same way as unused annual leave upon terminating state employment without retiring. A state employee may accumulate up to 320 hours of converted sick leave by changing unused sick leave to converted sick leave under a formula provided in Utah Code Section 67-19-14.1. The ability to accumulate converted sick leave ends January 1, 2014. Upon retirement, unused converted sick leave and unused sick leave are treated the same (*Utah Code Subsection 67-19-14.1(3)*).

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3. The amount that may be contributed is capped by federal annual contribution limits under the Internal Revenue Code Section 401(k). Any amount of the 25% contribution that exceeds federal limits shall be used: a) for Program I hours, for the purchase of continuing medical and life insurance benefits (*Utah Code Subsection 67-19-14.2(3)(b)*); or b) for Program II hours, for deposit in a medical reimbursement benefit plan (*Utah Code Subsection 67-19-14.4(2)(b)*).
  4. The life insurance coverage is only offered to the retiring employee until the employee reaches the age of eligibility for Medicare (*Utah Code Subsection 67-19-14.2(4)(c)(i)* and *Utah Administrative Code R477-7-6(5)(a)(iii)*).
  5. Utah provides a minimum benefit for low wage earners. The minimum rate of pay for purposes of the Program II deposit into an HRA may not be less than the average rate of pay of state employees who retire from the same system the previous calendar year (*Utah Code Subsection 67-19-14.4(2)(c)*).